



## **SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

July 21, 2010

LETTER FOR U.S. AMBASSADOR TO IRAQ  
MISSION DIRECTOR, U.S. AGENCY FOR INTERNATIONAL  
DEVELOPMENT, IRAQ

SUBJECT: Most Iraq Economic Support Funds Have Been Obligated and Liquidated  
(SIGIR 10-018)

This letter addresses the Special Inspector General for Iraq Reconstruction's (SIGIR) review of Economic Support Fund (ESF) allocations for Iraq. Since 2006, about \$4.5 billion have been allocated in ESF for use by the Department of State (DoS), U.S. Agency for International Development (USAID), the Department of Treasury, and the Department of Justice, among others, specifically for programs in Iraq. This review looks only at the U.S. Embassy's Iraq Transition Assistance Office (ITAO) and USAID's use of Iraq ESF funds because these two agencies received about 83% of the Iraq-allocated ESF funds.

### **Background**

The Economic Support Fund (ESF) is an appropriation account authorized by the Foreign Assistance Act of 1961 to provide flexible economic assistance to countries selected for their special political and security interests to the United States. ESF advances U.S. foreign policy interests by:

- increasing the role of the private sector in the economy, reducing government controls over markets, enhancing job creation, and improving economic growth
- developing an effective, accessible, independent legal system operating under the rule of law
- assisting in the transition to transparent and accountable governance and the empowerment of citizens
- developing and strengthening institutions necessary for sustainable democracy
- strengthening the capacity to manage the human dimension of the transition to democracy and a market economy, and to help sustain the neediest sectors of the population during the transition

Report Documentation Page				Form Approved OMB No. 0704-0188	
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1. REPORT DATE <b>21 JUL 2010</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2010 to 00-00-2010</b>	
4. TITLE AND SUBTITLE <b>Most Iraq Economic Support Funds Have Been Obligated and Liquidated</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Office of the Special Inspector General for Iraq Reconstruction, 400 Army Navy Drive, Arlington, VA, 22202-4704</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>17</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

ESF appropriations are two-year appropriations under the authority of the Foreign Assistance Act of 1961.<sup>1</sup> However, the funds remain available for deobligation and subsequent reobligation for a period of four years after the appropriation expires. Specific ESF dollar amounts are requested within the President’s Budget to Congress and approved by Congress under the Department of State’s International Affairs—Foreign Operations, Export Financing and Related Program (Foreign Operations) budgetary account. The ESF is also recognized as a bilateral economic assistance account for use by U.S. allies and countries in democratic transition to promote U.S. foreign policy objectives.

Since mid-2006, DoS, through the Director of Foreign Assistance, has been responsible for ESF programming decisions. The U.S. Agency for International Development and several DoS organizations have been given responsibility for implementing ESF funds for Iraq. Appendix B identifies all agencies, bureaus, and offices that received Iraq ESF funds from 2006 to 2010.

According to DoS and USAID financial records, between fiscal years 2006 and 2010, the U.S. Embassy-Baghdad and the USAID mission in Iraq received \$4,527 million in ESF funds for activities in Iraq. Table 1 summarizes the reported ESF allocations and the periods in which they may be used.

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<sup>1</sup> Public Law 87-195, Sec. 102.

**Table 1—ESF Allocations for Iraq between June 2006 and March 2010**  
(\$ millions)

<b>Fiscal Years</b>	<b>Amount Allocated</b>	<b>Expiration Date</b>	<b>Funds Available for Obligation Through</b>
2006-2007	\$1,570	09-30-2007	09-30-2011
2007-2008	1,802	09-30-2008	09-30-2012
2008-2009	462	09-30-2009	09-30-2013
2009-2010	553	09-30-2010	09-30-2014
2010-2011	135	09-30-2011	09-30-2015
<b>Total</b>	<b>\$4,527</b>		

**Note:** Numbers affected by rounding.

*Source: SIGIR analysis of DoS and USAID data as of March 31, 2010.*

Obligations are recorded when an authorized agent of the federal government enters into a legally binding agreement to purchase specific goods or services. As bills are received and payments made, the recorded obligation is reduced by the amount of the payments made, with the balance—that is, the money still owed—referred to as the *unliquidated obligation balance*. When all services or goods have been received and paid for, the obligation is considered “liquidated,” and any remaining unliquidated obligation balance not needed for payments should be deobligated and reduced to zero. If at any time the unliquidated obligation balance is no longer needed, the unliquidated obligation should be deobligated and the funds made available for other uses.<sup>2</sup>

The DoS, through ITAO,<sup>3</sup> uses interagency agreements in accordance with Section 632(b) of the Foreign Assistance Act to obligate the majority of ITAO’s Iraq ESF allocations. ITAO considers these funds as fully obligated when the interagency agreements are signed for the total amount indicated in the agreements. Specifically, the implementing agency designated in most of the agreements is the U.S. Army Corps of Engineers (USACE). Once ITAO approves a project, it is then forwarded to USACE, who then works with ITAO program management in the preparation of the statement of work and cost estimates for all projects. ITAO and USACE work in coordination with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)<sup>4</sup> who then solicits and awards the majority of ITAO contracts for implementation. Other contract implementers for

<sup>2</sup> Appropriations Law, Volume II, Chapter 7, GAO 06-382SP.

<sup>3</sup> The Iraq Strategic Partnership Office replaced ITAO on May 7, 2010.

<sup>4</sup> The Joint Contracting Command-Iraq/Afghanistan transitioned to a Joint Theater Support Contracting Command in April 2010.

ITAO ESF include the DoS Office of Acquisitions Management and the Near Eastern Affairs/Iraq (NEA/I) Grants Office. After a contract is awarded with 632(b) funding, USACE enters the contract award amount in its official financial management system, the Corps of Engineers Financial Management System (CEFMS), as sub-obligations. All other ESF that is not part of the 632(b) agreement is obligated and paid through DoS.

Allocated funds must be obligated in the fiscal years for which they are made available. These obligated funds may be paid out as bills for services received. If the goods and services are received and paid for during the contract period and the procurement is complete, any remaining unliquidated obligation balance can be deobligated and used for other needs consistent with the source appropriation. Deobligation of funds obligated through 632(b) agreements requires an amendment to the 632(b) in order to de-obligate the funds. Funds expire if they are not obligated in the fiscal years for which they are allocated. Expired funds can be used in the subsequent four years to liquidate obligations properly chargeable to the account prior to its expiration. The expired account balance also remains available to make legitimate obligation adjustments, that is, to record previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations.

The major recipients of the Iraq ESF were ITAO, which received 31% of the funds, and USAID which received 52% of the funds. The following section of this report will discuss information related to and reported by these two recipients.

Between FY 2006 and FY 2008,<sup>5</sup> ITAO obligated ESF in three tracks. These are:

- Security: projects and programs designed to improve the security situation in Iraq, such as Infrastructure Security Protection for oil, water and electric sectors, and the Provincial Reconstruction Development for buildings, communications, electricity, education, health, security and justice, transportation, and water
- Political: programs and projects such as Ministerial Transitional Capacity Development
- Economic: projects such as Plant-level Capacity Development and the Technical Training, and the Targeted Development Program

Since 2006, USAID has also obligated ESF in three tracks. These are:

- Security: projects and programs designed to improve the security in Iraq, such as the Community Stabilization Program, and the Community Action Program
- Political: programs and projects such as Monitoring and Evaluation and Democracy and Civil Society

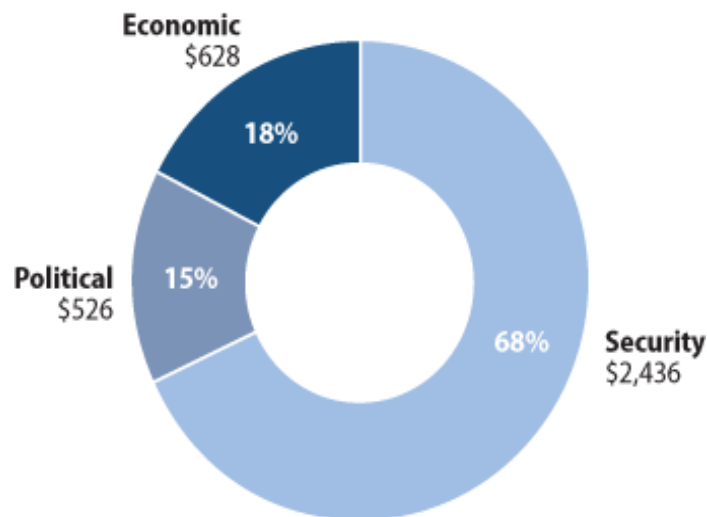
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<sup>5</sup> ITAO received no ESF after fiscal year 2008.

- Economic: projects such as the Inma Agribusiness Development, and Economic Growth Program

Figure 1 summarizes the amounts obligated for each track.

**Figure 1—ESF Iraq Obligations by ITAO and USAID as of March 31, 2010 (\$ millions)**



*Source: SIGIR Analysis of Department of State and U.S. Agency for International Development data as of March 31, 2010.*

**Notes:**

Numbers affected by rounding.

Pie Chart totals are less than totals in Table 1 and Table 2 because USAID has not received most of its ESF funds for fiscal year 2010.

The security track is for reconstruction projects designed to improve the security situation in Iraq.

Our objective for this report is to document the status of the ESF Iraq allocations.

## **Most of the Iraq ESF Funds Were Obligated and Liquidated**

### **ITAO**

Between fiscal years 2006 and 2008, ITAO received approximately \$1,397 million in ESF, of which approximately \$1,378 million (nearly 99%) has been obligated.

Of the \$1,378 million obligated as of March 31, 2010, about \$1,030 million (nearly 75%) has been liquidated. About \$347 million (over 25%) in obligations remain to be liquidated.

About \$20 million (approximately 1%) of the funds allocated were not obligated during the period in which they were authorized and thus have expired. These expired funds cannot be used for new obligations but can be used to cover adjustments to prior obligations. If the funds are

not needed to cover potential adjustments, the expired funds for each fiscal year will remain in ITAO's accounts for four years.

The Iraq Strategic Partnership Office replaced ITAO on May 7, 2010. According to embassy officials, in preparing for ITAO's closure, the officials reviewed all open projects and cancelled some. Funds for the cancelled projects were then deobligated. According to the same officials, these funds are now being reprogrammed for other assistance programs in Iraq. ISPO will not fund any new projects and will solely monitor the remaining 114 projects. The column labeled "Unliquidated Obligations" in Table 2 reflects \$82.1<sup>6</sup> million in funding that embassy officials state is in the process of being reprogrammed.

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<sup>6</sup> The \$82.1 million was deobligated after March 31, 2010, after the cut-off date for all other data in this report.

Table 2 shows the status of the Iraq ESF allocated to ITAO for each fiscal year, as of March 31, 2010.

**Table 2—Status of Iraq ESF Funds by Fiscal Year as of March 31, 2010**  
(\$ millions)

<b>Fiscal Year</b>	<b>Amount Allocated</b>	<b>Amount Obligated</b>	<b>Amount Liquidated</b>	<b>Amount Remaining for New Obligation</b>	<b>Amount Expired</b>	<b>Unliquidated Obligations</b>
2006	\$914	\$900	\$764	\$0	\$15	\$135
2007	\$478	\$473	\$266	\$0	\$5	\$207
2008	\$5	\$5	\$0	\$0	\$0	\$5
<b>Total</b>	<b>\$1,397</b>	<b>\$1,378</b>	<b>\$1,030</b>	<b>\$0</b>	<b>\$20</b>	<b>\$347</b>

*Source: SIGIR analysis of data provided by ITAO as of March 31, 2010.*

## **USAID**

Between fiscal years 2006 and 2009, USAID received approximately \$2,332 million in ESF for its programs in Iraq, of which about \$2,213 million (95%) has been obligated. About \$12 million from the 2006 and 2007 appropriations remains available for new obligations because those funds were deobligated from their respective years. The Office of the Chief Financial Officer for USAID is currently working with the Office of Management and Budget on making these funds available for reprogramming. About \$108 million from fiscal year 2009 appropriation remains available for new obligation through September 30, 2010.

Of the \$2,213 million obligated as of March 31, 2010, \$1,841 million (approximately 83%) has been liquidated. About \$371 million (approximately 17%) in outstanding obligations remains to be liquidated.



Table 3 shows the status of the Iraq ESF allocated to USAID for each fiscal year, as of March 31, 2010.

**Table 3—Status of Iraq ESF Funds by Fiscal Year as Reported by USAID**  
(\$ millions)

<b>Fiscal Year</b>	<b>Amount Allocated</b>	<b>Amount Obligated</b>	<b>Amount Liquidated</b>	<b>Amount Remaining for New Obligation</b>	<b>Amount Expired</b>	<b>Unliquidated Obligations</b>
2006	\$434	\$431	\$431	\$4	\$0	\$0
2007	1,110	1,102	1,088	8	0	15
2008	384	384	287	0	0	97
2009	404	296	36	108	0	259
<b>Total</b>	<b>\$2,332</b>	<b>\$2,213</b>	<b>\$1,841</b>	<b>\$120</b>	<b>\$0</b>	<b>\$371</b>

**Note:** Numbers affected by rounding.

*Source: SIGIR analysis of data provided by USAID as of March 31, 2010.*

## Concluding Observation

DoS and USAID have obligated the majority of funds allocated for ESF programs in Iraq and are in the process of obligating the remaining funds. The agencies also liquidated the majority of their obligations.

## Management Comments and Audit Response

This report does not contain recommendations, and SIGIR did not receive comments from the U.S. Ambassador to Iraq or the Mission Director, U.S. Agency for International Development.

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We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn Furbish, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ [glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil), or Nancee Needham, Deputy Assistant Inspector General for Audits (Baghdad), (240) 553-0581, ext. 3793/ [nancee.needham@iraq.centcom.mil](mailto:nancee.needham@iraq.centcom.mil).

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.  
Inspector General

cc: U.S. Secretary of State  
Administrator, U.S. Agency for International Development  
U.S. Secretary of Defense  
Commander, U.S. Central Command  
Commanding General, U.S. Forces-Iraq

## **Appendix A—Scope and Methodology**

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In April 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1011 to audit the status of the Economic Support Fund (ESF) allocated for programs in Iraq. Our objective for this report is to determine the status of the Iraq Economic Support Fund (ESF) appropriations. This audit was performed by SIGIR under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work during April through June 2010 in Baghdad, Iraq.

We reviewed activities by the Department of State’s (DoS) Iraq Transition Assistance Office (ITAO) and the U.S. Agency for International Development (USAID) because they are the major implementing agencies for the Iraq ESF appropriations. We obtained and analyzed documents and data provided by officials from DoS and USAID on processes and procedures used to track and account for obligations and expenditures made from appropriations for the Iraq ESF. The data provided by these offices originated from the U.S. Army Corps of Engineers’ Financial Management System, the Consolidated Overseas Accountability Support Toolbox, and the Phoenix Financial Management System, which are the financial management systems of record for the Iraq ESF. We discussed this information with DoS and USAID officials and also queried them about the project and activity planning for the latest ESF-allocated funds for Iraq, such as spending plans or project metrics. Further, we obtained and reviewed relevant portions of the laws and regulations governing the appropriation and use of the ESF.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### **Use of Computer-processed Data**

We used computer-processed data in this report from the Corps of Engineers’ Financial Management System, USAID’s Phoenix Financial Management System, and the Department of State’s Consolidated Overseas Accountability Support Toolbox. We did not verify the data, but we determined that the controls used by DoD, USAID, and DoS for tracking the status of the Iraq ESF appropriations were sufficiently reliable for purposes of the audit.

## **Internal Controls**

In conducting the audit, we reviewed the internal controls used by DoS and USAID to track the status of funds allocated for the Iraq ESF. In addition, we examined documents and held discussions with key officials to gain an understanding of the internal controls governing the use of ESF. We determined that DoS and USAID's internal controls were sufficiently reliable for tracking the status of Iraq ESF appropriations, obligations, and expenditures for the purpose of the audit. The results of our review in terms of the status of Iraq ESF appropriations are discussed in the report.

## **Prior Coverage**

We reviewed the following SIGIR reports for this audit:

- *Fact Sheet on Sources and Uses of U.S. Funding Provided in Fiscal Year 2006 for Iraq Relief and Reconstruction*, SIGIR 07-005, 7/27/2007.
- *Status of Department of State Economic Support Fund Interagency Agreements with the U.S. Army Corps of Engineers in Iraq*, SIGIR 09-006, 10/28/2008.

## Appendix B—Iraq ESF Funding by Agency

**Table 4—ESF Funds for Iraq—by Agency (\$ millions)**

Implementers	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
State Department	\$1,091	\$686	\$78	\$140	\$124	\$2,119
U.S. Agency for International Development	434	1,110	384	404	0	2,332
Department of Treasury	13	0	0	0	6	19
Department of Agriculture	0	2	0	8	0	10
Department of Commerce	0	3	0	5	5	13
Department of Justice	33	0	0	0	0	33
<b>Total</b>						<b>\$4,527</b>

*Source: SIGIR analysis of DoS and USAID data as of March 31, 2010.*

**Notes:**

Numbers affected by rounding.

## Appendix B—Iraq ESF Funding by Agency (cont.)

**Table 5—State Department ESF Funds for Iraq—by Bureaus and Offices (\$ millions)**

Implementers	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
State Department/ITAO <sup>1</sup>	\$0	\$36	\$33	\$14	\$28	\$111
State Department/ITAO	0	0	5	0	0	5
State Department/ITAO <sup>2</sup>	0	57	0	15	0	72
State Department	42	0	20	5	0	67
State Department/S/GWI	0	0	0	5	0	5
State Department NEA/MEPI	0	0	10	0	0	10
State Department/ Baghdad/ACCO	0	0	0	4	6	10
State Department/CLA	0	0	0	19	0	19
State Department/DRL	85	205	0	71	90	452
State Department/ECA	0	0	0	2	0	2
State Department/INR	0	2	0	0	0	2
State Department/ITAO <sup>3</sup>	45	0	10	0	0	55
State Department/OPA	0	0	0	5	0	5
State Department/PRM	50	0	0	0	0	50
USACE/GRD (sub-obligated from ITAO)	869	385	0	0	0	1,254
<b>Total DoS</b>	<b>\$1,091</b>	<b>\$686</b>	<b>\$78</b>	<b>\$140</b>	<b>\$124</b>	<b>\$2,119</b>

Source: SIGIR analysis of DoS and USAID data as of March 31, 2010.

<sup>1</sup> The \$36 million in FY 2007 is included in ITAO total of reporting purposes.

<sup>2</sup> Only the \$57 million in FY 2007 was managed by ITAO.

<sup>3</sup> Only the \$45 million in FY 2006 belongs to ITAO.

## Appendix C—Definitions of Terms

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The following terms were used in the report.

<b>Appropriation</b>	A statute that generally provides legal authority for federal agencies to incur obligations and to make payments out of the Treasury for specified purposes.
<b>Availability of Funds</b>	Funds remain available for deobligation and subsequent reobligation for a period of four years after the appropriation expires.
<b>Expenditures</b>	The actual spending of money; an outlay.
<b>Expired Funds</b>	Funds expire if they are not obligated within the time period specified in its appropriation for incurring obligations.
<b>Liquidated Funds</b>	Funds are considered liquidated when all services or goods have been received and paid for.
<b>Obligation</b>	A definite commitment that creates a legal liability for the payment of goods and services ordered or received.
<b>Unliquidated Obligation</b>	The amount of an obligation that has yet to be expended.

## Appendix D—Acronyms

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Acronym	Description
DoS	Department of State
ESF	Economic Support Fund
ITAO	Iraq Transition Assistance Office
PRT	Provincial Reconstruction Teams
PRDC	Provincial Reconstruction Development Committee
SIGIR	Special Inspector General for Iraq Reconstruction
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development



## **Appendix E—Audit Team Members**

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This report was prepared and the review conducted under the direction of David R. Warren, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the review and contributed to the report include:

Mohamed K. Abdou

Arthur Granger

Nancee K. Needham

## Appendix F—SIGIR Mission and Contact Information

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<b>SIGIR's Mission</b>	<p>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</p> <ul style="list-style-type: none"><li>• oversight and review through comprehensive audits, inspections, and investigations</li><li>• advice and recommendations on policies to promote economy, efficiency, and effectiveness</li><li>• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse</li><li>• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports</li></ul>
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